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UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE

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10 ATM SHAFIQUL KHALID; XENCARE  
11 SOFTWARE, INC.,

Case No. 2:24-cv-00449

12 Plaintiffs,

13 v.  
14 DEFENDANT MICROSOFT'S  
15 Washington Corporation,  
16 OPPOSITION TO MOTION TO  
17 Defendant.  
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NOTE ON MOTION CALENDAR:  
MAY 3, 2024

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## **INTRODUCTION**

2 During years of litigating this breach of contract case in state court, plaintiffs  
3 Xencare Software Inc. and ATM Shafiqul Khalid (“Plaintiffs”) repeatedly averred that  
4 they sought only to litigate issues related to ownership of three patents registered to  
5 Plaintiffs before bringing a threatened future federal patent infringement action.<sup>1</sup>  
6 Then, two months before trial (and nearly at the close of discovery), Plaintiffs served  
7 expert reports making clear for the first time that they were seeking patent  
8 infringement-based (not simply tort or contract-based) remedies in the state court  
9 action, requesting hundreds of millions of dollars in damages. Plaintiffs base these  
10 damages on a patent infringement reasonable royalty theory that requires a finding  
11 that Microsoft infringed the patents.

12 Until the expert reports were served in the state court action, Microsoft had  
13 taken Plaintiffs at their word and understood the factual allegations of infringement in  
14 this case to be immaterial to the state court action—because they were not relevant to  
15 any of Plaintiffs’ causes of action, not necessary to resolve the question of patent  
16 ownership, and unrelated to his asserted damages. It was only after Microsoft received  
17 the expert reports in March 2024 that it became clear what Plaintiffs were attempting:  
18 to use their expert reports as a Trojan Horse to obtain patent infringement damages  
19 through the backdoor as “contract damages” in a court that lacks jurisdiction to  
20 interpret the patents or adjudicate patent infringement issues. Microsoft timely  
21 removed, even though the parties were awaiting a decision on motions for summary  
22 judgment that had been argued on March 1, 2024.<sup>2</sup>

<sup>1</sup> Bradley Dec., ¶¶ 4-5.

<sup>2</sup> Plaintiffs' argument that Microsoft timed the removal to avoid a ruling on summary judgment is flatly belied by the facts that Microsoft itself moved for

This Court should deny Plaintiffs' motion to remand. As Plaintiffs' expert reports finally made clear after years of avoidance, their extraordinary "contract" damages rest on infringement-dependent theories. In light of Plaintiffs' recently disclosed damages theory, the state court damages claims *cannot* be resolved absent construction of patent claims and a full infringement analysis as to (at least) Microsoft's accused technologies. These are precisely the kinds of claims that can only—and must—be adjudicated exclusively by federal courts, which have exclusive jurisdiction to hear patent disputes of this type.

Further, even if this Court determines that it lacks subject matter jurisdiction over the damages claims in this action, this Court should consolidate this action with Microsoft’s recently-filed noninfringement case<sup>3</sup> in this Court, and exercise supplemental jurisdiction because both the legal and factual bases of the two are inextricable—indeed, Plaintiffs have moved to stay the declaratory relief action precisely because “a ruling on ownership of the Disputed Patents under Khalid’s employment agreement” is a necessary part of resolving that case.<sup>4</sup>

## FACTUAL BACKGROUND

This case arose out of two employment agreements between Khalid and Microsoft. Khalid worked at Microsoft for two separate periods: 1998 to 2006 and 2012

summary judgment and had repeatedly inquired with the court regarding the anticipated timing of a ruling, emailing the department for a status update weeks after the court's stated date for a ruling came and went. [Bradley Dec., at Exh. A. (Email to King County Superior Court).]

<sup>3</sup> Microsoft recently moved to consolidate this action with the related non-infringement action, *Microsoft v. Khalid, et al.*, 2:24-cv-00448-JNW. See Dkt. 15 (Motion to Consolidate).

<sup>4</sup> Plaintiffs' Motion to Stay, *Microsoft v. Khalid, et al.*, 2:24-cv-00448-JNW, Dkt. 16 (Apr. 26, 2024) at p. 7.

1 to 2015. Prior to beginning employment with Microsoft for each of those periods,  
 2 Microsoft and Khalid executed an employment agreement. Both employment  
 3 agreements had provisions related to ownership of any inventions Khalid might  
 4 develop during his time at Microsoft. In language directly mirroring Washington  
 5 statute (RCW 49.44.140), for any inventions developed during his Microsoft  
 6 employment that he wished to claim as his own, Khalid agreed to bear the burden of  
 7 proving that the invention was:

- 8       1) developed entirely on his own time;
- 9       2) not directly related to any of Microsoft's business;
- 10      3) not related to any of Microsoft's actual or anticipated  
           research and development;
- 11      4) does not result from any work performed by Khalid for  
           Microsoft.<sup>5</sup>

13 This provision was in both the 1998 and 2011 employment agreements signed by  
 14 Khalid.

15 Khalid and Microsoft disagreed as to who owned two alleged inventions that  
 16 Khalid began developing during the 1998-2006 period of employment, which he  
 17 continued to develop and worked to patent during his second stint at Microsoft. In  
 18 2006, when Khalid first told Microsoft that he'd sought patents on the two ideas,  
 19 Microsoft told Khalid that he did not have ownership rights. Khalid abandoned his  
 20 patent applications and conceded that Microsoft owned this subject matter.  
 21 Unbeknownst to Microsoft and in an attempt to profit from ideas that he knew were  
 22 not his, after he quit Microsoft, Khalid re-applied for patents—copying and pasting

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24       <sup>5</sup> This contractual language comports precisely with the Washington statutory  
 25 requirements of RCW 49.44.140, which permits employers to set these conditions for  
 26 employee ownership of inventions developed during their work for a particular  
           company.

1 the contents of his prior patent applications into new ones. When Khalid rejoined  
 2 Microsoft, he was supposed to disclose any inventions that he 1) owned AND 2)  
 3 developed while he was not a Microsoft employee. Khalid contends that he disclosed  
 4 the disputed patent applications upon re-joining Microsoft and that simply because he  
 5 did so, he owns the patents. Microsoft maintains that any such disclosure is irrelevant  
 6 to Khalid's false claim of exclusive ownership. Khalid did not own the alleged  
 7 inventions at the time he signed the 2011 agreement, and he did not satisfy the four  
 8 requirements for exempting them from Microsoft's ownership.

9       This action, filed in state court in 2019, alleged causes of action related to the  
 10 2011 employment agreement, including: breach of contract, breach of the covenant of  
 11 good faith and fair dealing, violation of Washington's consumer protection act, and  
 12 declaratory judgment. Though the factual section of the operative complaint includes  
 13 a summary allegation that Microsoft is infringing the disputed patents, none of the  
 14 causes of action in the complaint relies on Microsoft's infringement as a source of  
 15 liability, nor does the prayer for relief reference infringement-based damages. This  
 16 avoidance was purposeful.

17       During the state court action, Khalid said that he would later bring a separate  
 18 infringement lawsuit against Microsoft if he prevailed on the ownership dispute.  
 19 Bradley Decl. ¶ 3. In February 2024, the parties attempted to mediate<sup>6</sup> the entirety of  
 20 their dispute—discussing a settlement of the present action that also obviated the  
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23       <sup>6</sup> As Plaintiffs' motion for remand relies heavily upon mediation-related  
 24 documents and communications, Microsoft addresses those and related  
 25 communications herein; such communications are not privileged in assessing whether  
 26 a case is removable and when a party has notice of a case's removability. *Molina v.*  
*Lexmark Int'l, Inc.*, No. CV0804796MAMFMX, 2008 WL 4447678, at \*9 (C.D. Cal. Sept.  
 30, 2008).

1 theoretical infringement case that Plaintiffs had thus far declined to file. In that  
 2 context, Plaintiffs included analysis of infringement-related damages in connection  
 3 with potential settlement of the threatened future infringement case. At that time,  
 4 Plaintiffs' counsel explicitly conveyed (through the mediator) that the expert report  
 5 they shared was a draft, which was subject to change prior to submission of any  
 6 reports in the state court litigation. Bradley Decl. ¶ 7.

7 Microsoft was surprised when, on March 15, 2024, it received Plaintiffs' expert  
 8 reports in the state court action—and those reports contained the SAME analysis of  
 9 infringement-related damages but as a measure of contractual damages. *See* Dkt. 1-3  
 10 (Mason Report); Dkt. 1-4 (Cragun Report). Notwithstanding that Plaintiff's expert  
 11 reports purport to be directed to the state court causes of action, in substance the  
 12 March 2024 reports explicitly note patent infringement as a foundation of damages.

13 In his report, Mr. Mason notes that:

14 In the current case, I have been asked to evaluate the patents,  
 15 determine if they apply to game console emulation and cloud  
 16 gaming, and if so, to identify potential parties that may be  
infringing these patents.<sup>7</sup>

17 Likewise, Mr. Cragun's report<sup>8</sup> calculates damages by "applying a success rate to the  
 18 total royalties and prejudgment interest to account for the risk associated with Khalid  
 19 successfully litigating his patent infringement claims against Microsoft." Thus, for the  
 20 first time in the years of litigating the state court case, the expert reports put Microsoft  
 21 unequivocally on notice that Plaintiffs would request that the jury find that Microsoft  
 22 infringed his patents (which have not been construed, and cannot be construed by a  
 23 state court), and that Microsoft's purported breach of contract therefore resulted in

25 \_\_\_\_\_  
 26 <sup>7</sup> Dkt. 1-3 (Mason Report) at 2.

<sup>8</sup> Dkt. 1-4 (Cragun Report) at 16.

1 “lost royalties” to Plaintiffs of hundreds of millions of dollars.

2 **ARGUMENT**

3 **I. This Court Has Subject Matter Jurisdiction to Hear The State Court Action  
4 Because It “Arises Under” Federal Patent Law.**

5 Microsoft removed this action under 28 U.S.C. § 1331 (federal question  
6 jurisdiction), § 1338(a) (original jurisdiction for claims “arising under any Act of  
7 Congress relating to patents”), and § 1338(b) (original jurisdiction for any claims  
8 “asserting a claim of unfair competition when joined with a substantial and related  
9 claim under the copyright, patent, plant variety protection or trademark laws”).

10 Under § 1338(a), a case is removable where it “arises under” federal patent law.  
11 Courts consider a civil action to “arise under” federal patent law if federal patent law  
12 creates the cause of action asserted or if the case involves a federal patent issue that is  
13 “(1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of  
14 resolution in federal court without disrupting the federal-state balance approved by  
15 Congress.” *Vermont v. MPHJ Tech. Invs., LLC*, 803 F.3d 635, 645 (Fed. Cir. 2015)  
16 (quoting *Gunn v. Minton*, 568 U.S. 251, 258 (2013)); see also *Christianson v. Colt Indus.*  
17 *Operating Corp.*, 486 U.S. 800, 808-09 (1988). In this case, the federal patent issue  
18 revealed by Plaintiffs’ expert reports is necessarily raised in this action. The parties  
19 dispute the patent issues, which are substantial. Finally, this Court can resolve the  
20 claims here without disrupting the federal-state balance of power.

21 The basis for federal jurisdiction need not be, as Plaintiffs assert, on the face of  
22 the complaint. Rather, section 1446(b)(3) permits a defendant to file a notice of  
23 removal within “thirty days after receipt by the defendant, . . . of a copy of an  
24 amended pleading, motion, order or *other paper* from which it may first be ascertained  
25 that the case is one which is or has become removable.” Microsoft does not contend  
26 that federal jurisdiction was evident from the face of the operative complaint (it was

1 not); rather it was the final expert reports (“other papers”) that Microsoft received on  
 2 March 15 that allowed it to first ascertain that the action had become removable.

3 **A. Necessarily Raised**

4 Substantive patent issues are necessarily raised in this case because a core  
 5 theory of Plaintiffs’ breach of contract damages arises from Microsoft’s purported  
 6 infringement of the patents at issue, and any analysis of patent infringement also  
 7 requires a federal court to construe the claims. Where even one theory of breach of  
 8 contract relies upon the court’s determination of patent issues, the entire cause of  
 9 action “necessarily raises” the issue for purposes of removal. *Dell Techs. Inc. v. TiVo*  
 10 Corp., 392 F. Supp. 3d 704, 717 (W.D. Tex. 2019) (finding that plaintiff’s breach-of-  
 11 contract claim necessarily raised a federal issue of patent infringement because it  
 12 raised a question as to whether a third party’s patent was infringed); *see also AEP*  
 13 *Excluded Assetco, LLC v. Bellanergy, LLC*, No. 4:23-CV-3638, 2024 WL 385695, at \*4 (S.D.  
 14 Tex. Feb. 1, 2024).

15 The federal patent issues are necessarily raised in this case, as made clear by the  
 16 Cragun report—which opines on contract damages in this case. The Cragun report’s  
 17 thin veneer of state court claims does not change the fact that Cragun’s analysis  
 18 focuses on the “lost royalty” damages suffered by Plaintiffs directly because of  
 19 purported infringement of his patents. In performing the damages analysis, the  
 20 Cragun report relies on Mr. Mason’s conclusion that, among others, “the claims of the  
 21 ‘637 and ‘118 patents describe techniques that are consistent with publicly available  
 22 information from Microsoft. Without using these technologies, Microsoft would need  
 23 to explore alternatives that are less efficient and more expensive.” Cragun Report (Dkt  
 24 1-4), ¶ 21 (emphasis added). The Cragun Report uses Microsoft Xbox consoles that  
 25 “allegedly includes Khalid’s patented technology” as the royalty base. *Id.*, ¶ 25, Exh. 3.  
 26 In determining the royalty rate, the Cragun Report looks to the application of the

1 market approach, income approach, and cost approach in the context of the patent-  
 2 specific analysis set forth in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F.  
 3 Supp. 1116 (S.D.N.Y. 1970), which pertains to patent infringement damages. *Id.* ¶ 26,  
 4 n.71. The Cragun Report looks specifically at royalty damages within the six-year  
 5 statutory period for patent damages. *Id.*, ¶ 31, Ex. 4; 35 U.S.C. § 286. Consistent with  
 6 patent damages law, it limits royalty damages to U.S. damages. Cragun Report at 17,  
 7 n.81. Patent damages expert reports presume liability, but if no liability is found then  
 8 no damages are owed. Thus, for patent royalty damages to apply, the state court must  
 9 determine whether Microsoft is infringing—necessitating construction of the claims of  
 10 the patents—and apparently under Plaintiffs' theory also would ask the state court to  
 11 determine whether Sony, Nvidia, and Amazon (nonparties to this case) are also  
 12 infringing.<sup>9</sup>

13 The Cragun report's calculation of "lost enterprise" damages also relies upon  
 14 the state court deciding patent issues. Khalid represented to the USPTO that he is the  
 15 assignee of the disputed patents. Yet Cragun's report relies on Microsoft's own  
 16 research costs (also characterized as Microsoft's "unjust enrichment" in avoiding  
 17 research and development costs)—which can only be cognizable if Microsoft itself has  
 18 been found to infringe. Cragun Report at pp. 24-25. Cragun also ties Khalid's  
 19 purported lost earning potential not to his prowess as an inventor, but to his inability  
 20 to achieve a CTO position because his ability to market products have allegedly been  
 21  
 22  
 23

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24       <sup>9</sup> For instance, the Mason report notes that Sony is a party potentially using the  
 25 "Khalid Patents" in its platforms; Cragun's royalty damages calculation relies on this  
 26 alleged infringement by Sony. Cragun Report (Dkt. 1-4) at pp. 17-18 (citing Mason  
 report).

1 undermined by Microsoft and others' purported infringement.<sup>10</sup> *Id.* at p. 23-24.

2 Because Plaintiffs' damages theories on the state law contract claims require the  
 3 court to determine the scope of the patents and whether they were infringed by  
 4 Microsoft, as well as potentially by nonparties Nvidia, Amazon, and Sony, the issues  
 5 are "necessarily raised" by the state law case. If unable to raise the federal patent  
 6 issues, Plaintiffs would be unable to prove damages—a vital element of a contract and  
 7 good faith and fair dealing cause of action under Washington law.

8 Plaintiffs' reliance on *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1577  
 9 (Fed. Cir. 1997) and *Corbis Corp. v. Stone*, No. 64505-6-I, 2012 Wash. App. 1019, at \*33  
 10 (Ct. App. Mar. 26, 2012) are unavailing. In *Jim Arnold*, the plaintiff was seeking  
 11 recission of an assignment agreement and had not overreached to demand patent  
 12 infringement-related damages, so the court in that case did not need to evaluate  
 13 whether infringement occurred. *Jim Arnold*, 109 F.3d at 1577. In contrast, here, each  
 14 damages theory relies upon a finding of infringement. Nor does *Corbis Corp.* assist  
 15 Plaintiffs; that case, an unpublished Washington Court of Appeal action, does not  
 16 mention infringement or royalties, let alone whether any party sought to remove or  
 17 otherwise challenged the state court's jurisdiction. This case is also unlike *IGT v.*  
 18 *Acres*—in *IGT*, the defendants argued that plaintiff's state-court damages claim would  
 19 be affected by the federal court's determination regarding a patent; the court said the  
 20 damages claim "may possibly (but not necessarily) be affected." 2023 WL 6212756 (D.

21  
 22  
 23 <sup>10</sup> Infringement is key to this analysis as well. Khalid does not otherwise explain  
 24 how Microsoft has prevented him from obtaining a CTO position or representing  
 25 publicly that he was the inventor of the disputed patents. Accordingly, we are left to  
 26 assume that the "lost CTO salary" damages (which Cragun notes are due to  
 "Microsoft's wrongful acts") are somehow due to Microsoft allegedly using the  
 disputed patents without payment or acknowledgement.

1 Nev. Sept. 25, 2023). Here, however, the Plaintiffs themselves have relied on patent  
 2 infringement for their damages claim, making infringement “necessarily raised.”

3 **B. Actually Disputed**

4 Microsoft vigorously disputes that it has infringed the disputed patents—to  
 5 that end, Microsoft has filed a declaratory relief action in this Court, seeking a  
 6 judgment of non-infringement as to the disputed patents. See *Microsoft v. Khalid, et al.*,  
 7 2:24-cv-00448-JNW (“Declaratory Judgment Action”). As should be clear from its filing  
 8 of the Declaratory Judgment action, Microsoft is fully prepared to litigate the issue of  
 9 non-infringement, but it should not—and cannot—be forced to defend against  
 10 infringement claims put in issue in state court just two months before trial in a court  
 11 that lacks jurisdiction to adjudicate such claims.

12 **C. Substantial**

13 To support removal, the federal question must also be “substantial.” *Gunn*, 568  
 14 U.S. at 258; see also *VariBlend Dual Dispensing Sys. LLC v. Crystal Int'l (Grp.) Inc.*, No. 18  
 15 CIV. 10758 (ER), 2019 WL 4805771, at \*11 (S.D.N.Y. Sept. 30, 2019). “The substantiality  
 16 inquiry ... looks ... to the importance of the issue to the federal system as a whole.”  
 17 *Gunn*, 568 U.S. at 260. This “justifies] resort to the experience, solicitude, and hope of  
 18 uniformity that a federal forum offers on federal issues.” *Grable & Sons Metal Prod., Inc.*  
 19 v. *Darue Eng'g & Mfg.*, 545 U.S. 308, 312 (2005).

20 The Federal Circuit has held “that issues of inventorship, infringement, validity  
 21 and enforceability present sufficiently substantial questions of federal patent law to  
 22 support jurisdiction under Section 1338(a).” *Bd. of Regents v. Nippon Tel. & Telegraph*  
 23 *Corp.*, 414 F.3d 1358, 1363 (Fed. Cir. 2005) (citations omitted); *see also VariBlend*, 2019  
 24 WL 4805771, at \*11. In disputes like the one at issue here in which a plaintiff’s contract  
 25 claim requires resolution of underlying issues of infringement for its remedies theory,  
 26 courts have found the substantiality factor satisfied. *See id.* For instance, in *Jang v.*

1 *Boston Scientific Corp.*, the court found the federal claims substantial because “Jang’s  
 2 right to relief on the contract claim … depends on an issue of federal patent law—  
 3 whether [defendants] infringed Jang’s patents.” 767 F.3d 1334, 1337-38 (Fed. Cir. 2014).

4 Courts are more likely to find a patent issue substantial where the patents at  
 5 issue are “currently valid and enforceable” because state court findings regarding such  
 6 patents have “the potential to render that patent effectively unenforceable.” *Xitronix*  
 7 *Corp. v. KLA-Tencor Corp.*, 916 F.3d 429, 441 (5th Cir. 2019). Here, we are still well  
 8 within the patents’ 20-year term. This contrasts with cases like *Gunn*, which “entailed a  
 9 ‘merely hypothetical,’ ‘backward-looking’ review of a lawyer’s conduct regarding a  
 10 now-invalid patent.” *Id.* (quoting *Gunn*, 568 U.S. at 261).

11 Second, where (as here) there exists the possibility that the patentee would file  
 12 suits alleging infringement by non-parties to the litigation (*i.e.*, here, Plaintiffs’ theory  
 13 identifies Sony, Nvidia, and Amazon as allegedly needing a license to practice the  
 14 patents), courts likewise find the substantiality factor satisfied because the state court  
 15 suits have the potential of issuing conflicting rulings. “Forward-looking” patent issues  
 16 … pose questions involving live patents, and their resolution risks impacting patent-  
 17 holder’s rights.” *AEP Excluded Assetco, LLC v. Bellanergy, LLC*, No. 4:23-CV-3638, 2024  
 18 WL 385695, at \*5 (S.D. Tex. Feb. 1, 2024); *see also Jang*, 767 at 1337 (patent infringement  
 19 and validity issues were substantial as they were “neither entirely backward-looking  
 20 nor hypothetical” and had “real world potential” for impacting “subsequently arising  
 21 infringement suits affecting other parties”); *Forrester Env’t Servs., Inc. v. Wheelabrator*  
 22 *Techs., Inc.*, 715 F.3d 1329, 1334 (Fed. Cir. 2013) (explaining that forward-looking issues  
 23 are substantial because they “could result in inconsistent judgments between state and  
 24 federal courts”).

25 Here, just as in the above-cited cases, allowing the instant suit to proceed in  
 26 state court risks the state and federal systems rendering inconsistent rulings. These

1 rulings could not only be inconsistent as between this case and Microsoft's declaratory  
 2 relief action in this Court, which seeks a finding of non-infringement, but also as to  
 3 any later cases where Plaintiffs sue Amazon, Sony, or Nvidia in federal court for the  
 4 purported "infringement" alleged in the Mason and Cragun reports. The risk of state  
 5 court, which by statute can conduct none of the claim construction or infringement  
 6 analysis of a federal court, issuing a ruling that could affect future infringement suits  
 7 against third parties makes the patent issues here "substantial."

8 **D. Federal/State Balance**

9 As discussed above, any construction of the patent claims at issue here may also  
 10 have res judicata implications for future federal actions on the same patent. *VariBlend*  
 11 *Dual Dispensing Sys. LLC v. Crystal Int'l (Grp.) Inc.*, No. 18 CIV. 10758 (ER), 2019 WL  
 12 4805771, at \*12 (S.D.N.Y. Sept. 30, 2019). Resolution of claim construction and  
 13 infringement issues here, then, has the potential to impact future federal patent  
 14 litigation. *Cf. Gunn*, 568 U.S. at 261 ("Because of the backward-looking nature of a legal  
 15 malpractice claim, the question is posed in a merely hypothetical sense: If Minton's  
 16 lawyers had raised a timely experimental-use argument, would the result in the patent  
 17 infringement proceeding have been different? No matter how the state courts resolve  
 18 that hypothetical 'case within a case,' it will not change the real-world result of the  
 19 prior federal patent litigation.").

20 The question can also be resolved without disturbing the federal/state balance.  
 21 There is a recognized interest in uniformity in patent law. *Univ. of Colo. Found., Inc.*,  
 22 196 F.3d at 1372 (Fed. Cir. 1999); *see also VariBlend* 2019 WL 4805771, at \*13. Moreover,  
 23 Congress has given federal courts exclusive jurisdiction over patent law. 28 U.S.C.  
 24 § 1338(a). States, therefore, do not have an interest in interpreting questions of federal  
 25 patent law. Under the *Gunn* factors, this is precisely the kind of case that implicates  
 26 forward-looking patent rights—and should be in federal court.

1      **II. Removal Was Timely and Adequately Pled**

2      **A. Removal Was Timely Because Microsoft Removed Less than 30 Days**  
 3      **After the Expert Reports Put It on Notice that Plaintiffs Sought**  
 4      **Infringement Damages in the State Court Action**

5      The procedure for removing an action is governed by 28 U.S.C. § 1446, which  
 6      sets three key deadlines that affect removability. First, when a case “stated by the  
 7      initial pleading is removable on its face,” § 1446(b)(1) gives a defendant 30 days from  
 8      service of that pleading to file notice of removal. *Harris v. Bankers Life & Cas. Co.*,  
 9      425 F.3d 689, 694 (9th Cir. 2005); see also 28 U.S.C. § 1446(b)(1). Section 1446(b)(1)’s 30-  
 10     day deadline is triggered only if the basis for removal “is ascertainable from  
 11     examination of the four corners of the applicable pleadings, not through subjective  
 12     knowledge or a duty to make further inquiry.” *Carvalho v. Equifax Info. Servs., LLC*, 629  
 13     F.3d 876, 886 (9th Cir. 2010). If the case is not removable based on the initial pleading  
 14     but the defendant later receives an “amended pleading, motion, order or other paper”  
 15     that makes a ground for removal “unequivocally clear and certain,” § 1446(b)(3) gives  
 16     the defendant 30 days from receipt of that document to file a notice of removal.  
 17     *Dietrich v. Boeing Co.*, 14 F.4th 1089, 1090-91 (9th Cir. 2021); see also *Ranchod v. AIG*  
 18     *Prop. Cas. Co.*, No. C23-1642JLR, 2024 WL 489541, at \*3 (W.D. Wash. Feb. 7, 2024). The  
 19     purpose of the standard is to “bring[] certainty and predictability to the process” and  
 20     “avoid[] gamesmanship in pleading.” *Dietrich* at 1094.

21      The reason that Microsoft has removed this action several years into litigation  
 22      in state court is because of precisely the kind of pleading gamesmanship that the  
 23      Ninth Circuit was concerned with in *Dietrich*. While Plaintiffs note that their initial and  
 24      subsequent complaints allege infringement as a “fact,” each iteration of their  
 25      complaint was careful not to plead an infringement cause of action or to unequivocally  
 26      seek damages related to infringement.

1 Plaintiffs also rely on confidential mediation information in support of their  
 2 contention that Microsoft was “on notice” of the patent-dependent damages. But  
 3 Plaintiffs’ inclusion of patent infringement damages at mediation was not an  
 4 “unequivocally clear and certain” indication that infringement would be an issue in  
 5 the state court case; the reports exchanged for mediation were explicitly in draft form,  
 6 and were specifically submitted for the purpose of resolving the contract action and  
 7 obviating any hypothetical future patent infringement action at mediation.

8 Articulation of a damages theory in a draft report submitted for a mediation  
 9 intended to prevent prospective infringement claims in a future federal case is  
 10 equivocal at best. Simply put, Microsoft did not know at the time of mediation what  
 11 would be included in the final expert reports specific to the state case, and—given the  
 12 clear delineation of subject matter jurisdiction—reasonably expected that they would  
 13 *not* include patent infringement damages.

14 Plaintiffs also contend that their preliminary list of expert witnesses in 2023 and  
 15 early 2024 put Microsoft on notice of infringement-dependent damages. But, again, a  
 16 preliminary list of witnesses—including five expert witnesses disclosed in 2023, only  
 17 one of whom was retained by Plaintiffs—and vague descriptions of their testimony  
 18 cannot be deemed “unequivocally clear and certain” as to invoking federal  
 19 jurisdiction. Indeed, even expert witness *reports* have been found to be equivocal  
 20 where the materials leave defendants “attempting to hit what appeared to be a  
 21 moving or, at least, obscured target.” *Jones v. W. Virginia Div. of Corr. & Rehab.*, No.  
 22 2:21-CV-00645, 2022 WL 1019552, at \*5 (S.D.W. Va. Apr. 5, 2022).

23 **B. If This Court Finds Microsoft Had Notice of Infringement Damages Prior  
 24 to March 15, 2024, It May Nonetheless Find Removal Timely**

25 Even if this Court credits Plaintiffs’ argument that Microsoft was on notice of  
 26 their reliance on infringement to prove damages, this Court may—and should—

1 extend the 30-day notice requirement in this patent action. 28 U.S.C. § 1454, which  
 2 provides for removal specifically of patent claims/counterclaims, offers a less strict  
 3 deadline for filing for removal: the 30-day period can be “extended at any time for  
 4 cause shown.” 28 U.S.C. 1454(b)(2). For example, the Southern District of Texas  
 5 recently found removal timely because, even though pleadings outside the 30-day  
 6 limit arguably implicated patent law, “earlier on in the litigation, before [p]laintiff  
 7 explicitly raised an infringement-based breach of contract claim, and Defendant raised  
 8 a related counterclaim, it was less clear that patent issues were so intertwined with the  
 9 case.” *AEP Excluded Assetco, LLC v. Bellanergy, LLC*, No. 4:23-CV-3638, 2024 WL 385695,  
 10 at \*6 (S.D. Tex. Feb. 1, 2024).

11 Similarly, in this case, Plaintiffs explicitly told Microsoft that they did *not* intend  
 12 to bring a patent infringement matter until they had settled the ownership of the  
 13 patents vis-à-vis the state court breach of contract action. Bradley Decl. ¶ 3. Further  
 14 during the mediation, the parties agreed to mediate all current and any potential  
 15 claims, which would have obviated Plaintiff’s planned infringement action. *Id.* ¶ 6. It  
 16 was not until the expert reports were submitted that Plaintiffs finally articulated and  
 17 wholly committed to their theories of damages specific to the state court action, which  
 18 turned on Microsoft’s alleged infringement, that Microsoft was unequivocally on  
 19 notice of the federal issues.

### 20 C. Microsoft Adequately Pled Grounds for Removal

21 Although Plaintiffs contest the adequacy of Microsoft’s Notice of Removal, such  
 22 notices must only give “a short and plain statement of the grounds for removal.” 28  
 23 U.S.C. § 1446(a). That statement does not require the removing party to provide  
 24 evidence. *Dart Cherokee Basin Operating Co., LLC v. Owens*, 574 U.S. 81, 84 (2014).  
 25 Accordingly, a notice of removal need only include a “plausible allegation” that a  
 26 defendant has adequate grounds for removal. *Id.* at 89; *see also Webb v. 3M Co.*, 627 F.

1 Supp. 3d 612, 619 (S.D. Miss. 2022)

2 Here, Microsoft's Notice of Removal not only identifies in detail the ground for  
 3 removal, but also the factual basis for those grounds. As pled in the Notice, the legal  
 4 basis for removal was as follows:

5 This Court has original jurisdiction over Count I (the  
 6 Washington Consumer Protection Act), Count II (breach of  
 7 contract), and Count III (breach of good faith and fair dealing)  
 8 in this action under 28 U.S.C. 1331, 28 U.S.C. § 1338(a), and 28  
 9 U.S.C. § 1454(a) as the Plaintiffs in *Khalid v. Microsoft* assert  
 10 claims for relief arising under federal patent law. In addition,  
 11 this Court has jurisdiction over Count I under 28 U.S.C.  
 12 § 1338(b) ("[t]he district courts shall have original jurisdiction  
 13 of any civil action claim under the copyright, patent, plant  
 variety protection or trademark laws"), because the  
 Washington Consumer Protection Act prohibits "[u]nfair  
 methods of competition and unfair or deceptive acts or  
 practices in the conduct of any trade or commerce."

14 Dkt. 1 at ¶ 13.

15 Though not required to attach evidence in support of its grounds for removal,  
 16 Microsoft both pled specific facts giving its grounds for removal, *see* Dkt. 1 at ¶¶ 4-8,  
 17 and attached as exhibits to its Notice of Removal both expert reports supporting its  
 18 grounds for removal. Dkt. 1-3, 1-4 (Mason Report and Cragun Report).

19 **III. Even If This Court Finds This Action Lacks Federal Subject Matter  
 20 Jurisdiction, It Should Exercise Supplemental Jurisdiction Over This Action  
 21 After Consolidating with Microsoft's Declaratory Judgment Action.**

22 Given Plaintiffs' decision to ground their state court damages theories in patent  
 23 infringement, this Court has federal subject matter jurisdiction over the state court  
 24 claims in this action because those claims "arise under" federal patent law. However,  
 25 even if this Court finds otherwise, it should exercise supplemental jurisdiction over  
 26 the state law claims because they are part of the same case and controversy as the

1 federal Declaratory Judgment case related to this action.

2 As stated in 28 U.S.C.A. § 1367, “the district courts shall have supplemental  
 3 jurisdiction over all other claims that are so related to claims in the action within such  
 4 original jurisdiction that they form part of the same case or controversy under Article  
 5 III of the United States Constitution.” In assessing whether to exercise supplemental  
 6 jurisdiction, “[a]ll that is needed is a ‘loose factual connection between the  
 7 counterclaims and the primary claims.’” *MJ & Partners Rest. Ltd. P’ship v. Zadikoff*, 126  
 8 F. Supp. 2d 1130, 1134 (N.D. Ill. 1999) (quoting *Baer v. First Options of Chicago, Inc.*, 72  
 9 F.3d 1294, 1299 (7th Cir. 1995)). In cases where state claims are related to a later-filed  
 10 federal case, courts have found it appropriate to exercise supplemental jurisdiction.  
 11 See *Tjeknavorian v. Mardirossian*, 56 F. Supp. 3d 561, 568 (S.D.N.Y. 2014) (where state  
 12 court action was remanded and defendants subsequently filed a related copyright case  
 13 in federal court, federal court exercised supplemental jurisdiction over previously  
 14 remanded state claims).

15 Here, Microsoft has requested the consolidation of this action with the  
 16 Declaratory Judgment action precisely because the two actions arise from the same  
 17 factual basis—the ownership and purported infringement of the disputed patents. In  
 18 its motion to consolidate this case with the Declaratory Judgment action, Microsoft  
 19 noted that the two cases:

20 should be consolidated because they are so intertwined that, if  
 21 decided separately, it would create prejudice and confusion.  
 22 Determination of two issues will fundamentally affect both  
 23 cases: if Microsoft is found to own the patents, it will be  
 24 entitled to the declaration of non-infringement sought in the  
 25 Declaratory Judgment Case because it is at least a joint owner.

26 Dkt. 15, p. 7.

27 The issue of patent infringement is likewise common to both cases, through

1 Plaintiffs' own framing of his damages claim in this action. Through the Cragun and  
 2 Mason reports, Plaintiffs finally made clear they seek patent infringement damages in  
 3 this action. The statement that "[n]either of the expert reports allege patent  
 4 infringement," Mot. at 6, is disingenuous, as both reports explicitly note infringement  
 5 as a source of damages. Plaintiffs seek to recover infringement damages in this case,  
 6 which is the very question at the heart of the Declaratory Judgment Case; this Court  
 7 should coordinate the two cases and exercise supplemental jurisdiction over the state  
 8 law claims.

9 **IV. If The Court Remands This Action, It Should Deny Plaintiffs' Fee Request**

10 "Absent unusual circumstances, courts may award attorney's fees under  
 11 § 1447(c) only where the removing party lacked an objectively reasonable basis for  
 12 seeking removal. Conversely, when an objectively reasonable basis exists, fees should  
 13 be denied." *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 141 (2005); see also *Gardner v.*  
 14 *UICI*, 508 F.3d 559, 561 (9th Cir. 2007). Here, Microsoft has an objectively reasonable  
 15 basis for seeking removal, as described above.

16 Plaintiffs contend that fees are appropriate because Microsoft removed this case  
 17 to delay trial, or for other inappropriate reasons. Contrary to Plaintiffs' assertions,  
 18 however, Microsoft is not attempting to dodge a summary judgment ruling—both  
 19 parties had filed dispositive motions for a hearing on March 1, 2024, after which the  
 20 Court indicated it would rule by March 15, 2024. When a ruling did not come as  
 21 expected by the parties on that date, Microsoft twice emailed the state court chambers  
 22 over the subsequent two weeks to inquire about the expected timeline for a decision.  
 23 Bradley Dec. ¶ 5, Exh. A. (Email to King County Superior Court). Microsoft continues  
 24 to believe that its summary judgment motion should have—and would have—  
 25 disposed of the entire case. However, due to the statutory timeline for removal, once  
 26 the expert reports put Microsoft on notice of a basis for federal jurisdiction, it was

1 unable to wait any longer for the state court to rule on its motion.

2 Microsoft notified the department that had been considering the cross-motions  
3 for summary judgment of the removal the day after it occurred, to ensure the  
4 department was aware of the development and avoid unnecessary work by the court.  
5 Likewise, Microsoft filed its removal notice before the state court hearing on trial  
6 readiness to avoid a waste of judicial resources before the court was to lose jurisdiction  
7 due to the removal.

8 Accordingly, Microsoft's removal was objectively reasonable and filed in good  
9 faith; even if this Court remands this action it should decline to award fees.

10 **CONCLUSION**

11 For the foregoing reasons, this Court should deny Plaintiffs' motion to remand.

12 Dated: April 29, 2024

s/ Heidi B. Bradley

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I hereby certify that this memorandum contains 5,684 words, in accordance with Local Civil Rules.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing document has been served on all counsel of record via the Court's CM/ECF system on April 29, 2024.

Executed on the 29<sup>th</sup> day of April, 2024 at Los Angeles, California

s/ Gina Elliott

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